

THE METAMORPHOSIS OF CZECH
SOCIETY

HON. BARBARA B. KENNELLY

OF CONNECTICUT

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 9, 1995

Mrs. KENNELLY. Mr. Speaker, the Center for Democracy last Wednesday honored the Prime Minister of the Czech Republic, Vaclav Klaus, by awarding him its prestigious International Democracy Medal for 1995.

The Center for Democracy is a nonpartisan, nonprofit organization dedicated to supporting the democratic process throughout the world. In previous years, the center has honored Presidents Raul Alfonsin, Corazon Aquino, Oscar Arias, Patricio Aylwin, Violeta Chamorro, Arpad Goncz, and Boris Yeltsin.

I was fortunate to be at the dinner award ceremony and hear Prime Minister Klaus' acceptance address. His comments on the democratization process are profound, and I am including the text at this point in the RECORD.

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It is a great honor for me to be awarded the International Democracy Medal from your distinguished society. And it is extremely intellectually stimulating to have the unique opportunity to speak here today and share with you some of my ideas about the fundamental systemic change which has been going on in the Czech Republic for the last five years.

As well known, the Czech Republic suffered for many decades under an oppressive, undemocratic and totally inefficient communist political, social and economic system. It was a system irresponsive to human wants and desires. It is over now. I have to admit that I do not feel enough motivated these days to discuss at length the intrinsic logic as well as peculiarities of the functioning of such a system although I am convinced that the standard "sovietologist's" paradigm of explaining it needs substantial rewriting and though communism is not an unrepeatable, singular event which can never happen. But we are already on the other side of the Rubicon.

The task of our time has been positive—to replace such a system with a free, democratic society, based on political pluralism and the rule of law, with a well-functioning, efficient market economy, based on private property, private initiative and limited government.

I will try to argue here tonight that the Czech Republic has already introduced basic elements of such a system and by having done so, the country has entered what we call the early posttransformation stage.

In all our effort during the last few years to dismantle communism and institute free society and market economy the central idea was that of democracy. Several years ago I coined the phrase "market economy without any adjectives" in an attempt to reject all forms of "third ways" of economic organization and it seems to me now that I can say as well "democracy without adjectives" because it contains the same message. We do not want to make the term fuzzy, therefore, we don't like people's democracy, socialist or social democracy, christian democracy, etc. Whether this is really understood or not is exactly what distinguishes successful from unsuccessful approaches to the transformation of the postcommunist countries.

Talking about the metamorphosis of Czech society (and those of other Central and East European countries), the most important thing now is to avoid falling into the dan-

gerous reform trap of half-measures and useless political and social concessions, and not to give up the fight against an already emerging "réforme fatigue". The transformation has nonzero "transformation" costs and our task is to minimize them. This cannot be achieved only by spontaneous evolution of social institutions. The profound systemic change can be successful only if it is based on a clear and transparent vision of the future, the ability of politicians to sell such a vision to the citizens of the country and a pragmatic, and rational (and definitely not simple) transformation strategy.

To structure the logic of the whole process, to differentiate between the intentional and the unintentional the organized and the spontaneous parts of it, it is helpful to distinguish between passive and active transformation measures.

The passive (nonconstructivistic and noninterventionist) side coincides with deregulation and liberalization. The political transformation was fully based on this, i.e. on creating preconditions for a free entry into the political market. We realized very soon that this was sufficient and that no direct measures were indispensable (it was almost not necessary to prohibit anything). This is not a trivial conclusion. The free political space was very soon filled with new political entities and by now, in my country at least, the standard political structure—characterized by ideologically well-defined political parties—has been developed. The political structure is more European than American, with more than two political parties, which results in a coalition government and standard pressures between the cabinet and parliament.

The economic transformation was, of course, based on liberalization as well. It has been proved that liberalization of markets, that is of prices, foreign trade and private entrepreneurship, is necessary for the fundamental change of the system, but we realized that this is not sufficient. As I said before, the passive transformation plus waiting for evolutionary emergence of efficient markets and strong economic agents would last too long and be too costly. It was, therefore, supplemented with positive, more or less active transformation measures.

As—I am sure—you expect, the most important shift at the microeconomic level was achieved by privatization. In our country we managed to effect the fastest and most extensive transfer of property rights, at least in this direction. As you know, it is much easier to nationalize than to privatize, it is more difficult to build than to destroy. The job required a very special mix of standard and nonstandard privatization methods, and the innovative Czech voucher privatization, which involved millions of our citizens, proved to be a catalyst of the economic transformation. Now, five years after the Velvet Revolution and four years after the beginning of privatization, the massive, "wholesale" privatization is practically over. We have to settle some residual cases, but these are already part of our posttransformation tasks and challenges.

Speaking of the posttransformation stage, we have to complete the process of liberalization, deregulate the few still regulated prices (though the list of regulated prices in the Czech Republic is not longer than in the Western countries) and institute full convertibility of the currency; complete the privatization process, which is anyway coming to its close.

This kind of institutional refinement is the posttransformation task of the government. In addition, we need to deepen the markets and to strengthen the health of participating economic agents. This is, however, already a part of the Hayekian evolutionary process, in which the role of government is marginal.

But it is connected with another important challenge which is no more an integral part of our original transformation task. That is the need to safeguard economic freedom and resist the temptations for the government (magnified by strong lobbyist pressures) to introduce the same forms of regulation, control, licensing, etc. as we can see in some Western countries these days.

I know you have your own experience in this respect in your country, you have your own prophets of a limited or expanding government, and I can assure you that we followed your domestic political debates with great interest before our Velvet Revolution and we do with enormous interest now.

Let me make a few comments about how I see it from Prague. The ideological conflict over communism is over and it makes us very happy. There are new conflicts and new dubious, but attractive and fashionable ideas which must be discussed and their pitfalls and unintended consequences must be exposed. I have in mind the protectionist arguments for the so-called fair trade (I always try to relate the dispute between free and fair trade to the difference between free and fair speech); competition constraining arguments based on the criticism of the alleged social and ecological dumping; collectivistic features of communitarianism and the ideology of civil society; environmental extremism and overkill, etc.

The protectionist blueprint is an illusion, based on fear. In the end, it will not protect jobs but destroy them. The accusations of "dumping" neglect the law of comparative advantage, different levels of productivity of labor and wages (and related working conditions), as well as the connection between wealth and externalities. Communitarianism, instead of advocating the importance of voluntary associations and naturally emerging intermediating structures, preaches nostalgic reminiscences about a past that never existed and criticizes modern society. Environmentalism with its distinctly Calvinistic flavour and an obvious biblical quality is based on widespread misinformation, myths, sensationalism and promotes a collectivist, redistributionist political agenda.

Our experience gives us special sensitivity to all that and we see the similarities of arguments used in our country in the past and now in the sophisticated debates in your country and elsewhere. It is our duty to remind of that. We all have to watch our own policies and institutions. There is always the danger of creeping etatism and stronger government powers. And it is our duty not to let it destroy our fragile free and democratic society.

MEMORIAL DAY 1995

HON. BOB STUMP

OF ARIZONA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 9, 1995

Mr. STUMP. Mr. Speaker, sacrifice. It's a word we all know. All of us have made some sacrifices in our lives. We make sacrifices for our family, for our close friends, even for our neighbors and coworkers. Persons in the Armed Forces make many sacrifices, and over one million Americans have given their lives, the ultimate sacrifice, while serving in our Nation's armed forces. Throughout history, members of the Armed Forces have risked their lives not merely for their family or their coworkers, but for a cause represented by the